JOURNAL OF MANAGEMENT, ACCOUNTING, GENERAL FINANCE AND INTERNATIONAL ECONOMIC ISSUES
(MARGINAL)

THE EFFECT OF TAX INCENTIVES AND FINANCIAL DISTRESS ON ACCOUNTING CONSERVATISM

Fitriyah[1*], Desi Jelanti[2]
[1,2]Accounting Study Program, Universitas Pamulang
E-mail: [1)] dosen02472@unpam.ac.id, [2)] dosen02467@unpam.ac.id

Abstract

Accounting conservatism is employed to mitigate risk and curb excessive optimism among managers and company owners. However, an excessive application of conservatism may lead to inaccuracies in calculating a company's periodic profit or loss, potentially misrepresenting the company's true financial condition. This study aims to analyze the impact of tax incentives and financial distress on accounting conservatism. The study population comprises food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period from 2016 to 2020. Data for this research were collected from 10 companies that met the sample criteria, resulting in a total of 50 research observations over the 5-year period. The study relies on secondary data and employs multiple linear regression analysis to analyze the data. The findings suggest that (1) tax incentives (X1) have a significant influence on accounting conservatism (Y); (2) financial distress (X2) does not have a significant impact on accounting conservatism (Y); and (3) when considered together, tax incentives (X1) and financial distress (X2) collectively influence accounting conservatism (Y).

Keywords: *Accounting Conservatism, Financial Distress, Tax Incentives*

1. INTRODUCTION

Accounting conservatism serves as a crucial mechanism to mitigate risks and curb excessive optimism often exhibited by managers and company owners in financial reporting. Striking a balance between caution and optimism is paramount, as an excessively conservative approach can result in errors in calculating a company's periodic profits or losses, which might not accurately reflect the true financial state of the organization. This, in turn, can raise questions about the quality of financial reporting and the accuracy of reported earnings, potentially misleading stakeholders and impacting their decision-making processes (Sulastri & Anna, 2018).

The relevance of accounting conservatism becomes even more evident when we examine real-world scenarios. Take, for instance, PT. Indofarma Tbk, where a significant event occurred in 2004 when an investigation by Bapepam unveiled regulatory violations in the realm of capital markets, particularly concerning the presentation of financial statements (as reported by finance.detik.com). Another notable case unfolded at Toshiba, an electronics giant, in 2015, when it was exposed for overstating its profits to the tune of 151.8 billion yen or USD 1.22 billion (as reported by ekonomi.kompas.com). These real-world examples underscore the critical role of accounting conservatism in maintaining financial transparency and ensuring that financial statements accurately portray a company's financial health.

Tax incentives, often referred to as tax facilities, represent concessions or reductions granted by the government in matters of taxation. These incentives are accessible to both domestic and foreign investors and serve as a pivotal tool for attracting capital to bolster the country's economic growth (Suandy, 2006). In the Indonesian

investment landscape, these tax incentives hold tremendous significance, as they play a crucial role in luring both local and international investors. By offering tax-related benefits, the government aims to stimulate increased investment levels, fostering economic expansion, and simultaneously securing long-term tax revenue. It's noteworthy that in 2008, the Indonesian government initiated pivotal changes to the Income Tax Law through the enactment of Law No. 36 of 2008, ushering in a new era of incentives and facilitation for taxpayers.

Financial distress, defined as a company's level of financial difficulty, assumes immense importance as it often represents an initial sign of impending bankruptcy, driven by a deteriorating financial position. Companies experiencing financial turbulence frequently witness changes in their financial metrics, which can trigger concerns among shareholders and stakeholders. In such situations, shareholders might contemplate managerial changes, a move that can potentially affect the market value of managers within the labor market. Faced with these prospects, managers are incentivized to manage earnings carefully, as accounting earnings are often considered a key performance metric and can significantly impact perceptions of managerial competence and effectiveness. This intricate interplay between financial distress and managerial decision-making underscores the complexity of accounting and its real-world implications (Bimo & Sari, 2022).

The primary aim of this research is to investigate the impact of tax incentives and financial distress on accounting conservatism in the context of Indonesian food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2016-2020 period. This study seeks to unravel the intricate relationship between tax incentives, financial distress, and accounting conservatism, with a focus on understanding how these factors influence financial reporting practices. Through an in-depth analysis of this relationship, we aim to contribute to the existing body of knowledge in accounting and finance, providing valuable insights into the factors that shape accounting conservatism and its role in financial reporting. Ultimately, this research aims to enhance our understanding of how tax incentives and financial distress impact accounting conservatism and, by extension, financial decision-making and market dynamics in the Indonesian business landscape.

2. LITERATURE REVIEW

2.1. Agency Theory

Agency theory operates on the assumption that individuals are primarily motivated by self-interest, giving rise to conflicts of interest between principals and agents (Zelmiyanti, 2016). Principals are motivated to establish contracts that benefit their own well-being by ensuring consistently increasing profitability. In contrast, managers, as agents, are motivated to maximize their economic and psychological fulfillment, which includes obtaining investments, loans, and compensation contracts. Clear contracts that outline the rights and obligations of each party are necessary to minimize conflicts.

2.2. Signaling Theory

Signaling theory explains that managers provide signals to reduce information asymmetry. Managers convey information through financial reports that they apply conservative accounting policies to generate higher-quality earnings. This principle prevents companies from inflating profits and aids financial statement users by presenting

earnings and assets that are not overstated. Watts (2003) states that systematic or relatively permanent understatement of net assets is a characteristic of accounting conservatism. Therefore, accounting conservatism results in higher-quality earnings by preventing profit inflation and assisting financial statement users in presenting earnings and assets that are not overstated (Sumantri, 2018).

2.3. Accounting Conservatism

Accounting conservatism, as defined by Watts (2003), is a condition that does not anticipate earnings but anticipates all potential losses. Accounting conservatism is an accountant's tendency to verify good news as gains rather than bad news as losses (Basu, 1997). The higher the verification level required to recognize earnings, the higher the level of accounting conservatism required by the company. Despite the pros and cons of accounting conservatism, its practice has been on the rise (Putra et al., 2019).

2.4. Tax Incentives

Tax incentives refer to tax facilities granted to both foreign and domestic investors for specific economic activities or in specific regions that influence economic activities (Maulina, 2016). Changes in tax rates from progressive to flat rates have their own implications for companies. If managers strive to maximize the company's value and minimize tax burdens, changes in tax rates will incentivize managers to adopt conservative accounting. Tax incentives are typically granted to foster economic development, particularly in developing countries (Sumantri, 2018).

2.5. Financial Distress

Financial distress can be defined as an early sign of bankruptcy resulting from a decline in a company's financial condition. Problematic financial conditions can motivate shareholders to replace company managers, which can also reduce the market value of the managers in the job market. This threat can encourage managers to manipulate accounting conservatism as one of the performance metrics. Therefore, problematic financial conditions can prompt managers to adjust the level of accounting conservatism (Sulastri & Anna, 2018).

3. RESEARCH METHODS

3.1. Research Method

In this research, the author employs a quantitative method with associative analysis because there are variables whose relationships will be examined. The goal is to provide an overview of the relationships between the studied variables. The research focuses on business entities operating in the manufacturing sector listed on the Indonesia Stock Exchange for the period 2016-2020, using quantitative data.

The research methods employed include descriptive statistics and path analysis using Eviews. These analyses are used to provide descriptions of the research variables, including data count, maximum, minimum, mean, range, and standard deviation. Quantitative data are utilized in this study.

3.2. Operational Variables

In this research, the author uses two types of research variables, namely independent variables and dependent variables. Independent variables are those that influence, while dependent variables are those that are affected or changed. In this study, the dependent variable is Accounting Conservatism, while the independent variables are Tax Incentives and Financial Distress. These variables can be explained as follows:

Table 1. Operational Variables

No	Variable Type	Variable	Scale of Measurement	
1	Dependent	Accounting Conservatism	Cit = NIit – CFOit	Ratio
2	Independent	Tax Incentives	TAXPLAN (TP) = (Tarif PPh x (PTI –CTE)) / TA	Ratio
3	Independent	Financial Distress	Interest Coverage Ratio = Operating Profit / Interest Expense	Ratio

3.3. Population and Sample

The data used in this study are secondary data in the form of annual reports and financial reports of mining companies that have been published on the Indonesia Stock Exchange (IDX) website (www.idx.co.id) and company websites. The population used in this research consists of manufacturing companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange (IDX) for the period 2016-2020. Based on the sample selection criteria, 10 companies that met the sample criteria were selected. Therefore, the total sample for the 5-year observation period amounts to 50 research observations.

3.4. Research Method

The type of research used in this study is secondary data research. Secondary data refers to data obtained or collected by researchers from various existing sources. The data for this research were obtained from various financial sources of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2016-2020. This data includes annual financial reports of companies and company ownership structure.

3.5. Statistical Method

The statistical method used to test hypotheses in this study involves multiple regression and path analysis with the assistance of the Eviews software. Once all the data for this study is collected, descriptive statistical tests are performed, including mean, standard deviation, maximum, and minimum values. This is followed by classical assumption tests, which include tests for data normality, multicollinearity, Heteroscedasticity, and autocorrelation. The influence of independent variables on dependent variables in this study will be tested using multiple regression analysis, and path analysis will be used to test hypotheses. Subsequently, the determination coefficient (R-squared) will be calculated, followed by model feasibility tests (F-test) and T-tests.

4. RESULTS AND DISCUSSION

4.1. Result

4.1.1. Descriptive Statistical Test

Table 2. Descriptive Statistical Test Results

	Y	X1	X2
Mean	-3.45E+11	3012.335	39.56000
Median	-2.37E+10	0.012010	2.000000
Maximum	1.30E+12	43839.25	624.0000
Minimum	-7.44E+12	-0.008436	0.000000
Std. Dev.	1.36E+12	9656.802	125.7013
Observations	50	50	50

Based on the calculations above, it can be determined that there is a total of 50 data points used in this research, derived from 10 companies over 5 years. The dependent variable (Y) is Accounting Conservatism, while the independent variables (X1) are Tax Incentives, and (X2) is Financial Distress. The following is an analysis of each variable based on the results of the descriptive statistical tests conducted:

a. The mean value of the Tax Incentives variable is 3012.335, with a standard deviation of 9656.802. This indicates that the mean value is smaller than the standard deviation, implying that there is high variability and dispersion in the Tax Incentives variable. The minimum value is found in PT. Prasidha Aneka Niaga Tbk at -0.008436 in 2019, and the maximum value is found in PT. Indofood Sukses Makmur Tbk at 43839.25 in 2016.
b. The mean value of the Financial Distress variable is 39.56000, with a standard deviation of 125.7013. This suggests that the mean value is smaller than the standard deviation, indicating high variability and dispersion in the Financial Distress variable. The minimum value is recorded in PT. Sekar Bumi Tbk at 0.000000 in 2019, and the maximum value is observed in PT. Ultra Jaya Milk Industry Tbk at 624.0000 in 2019.

4.1.2. Normality Test

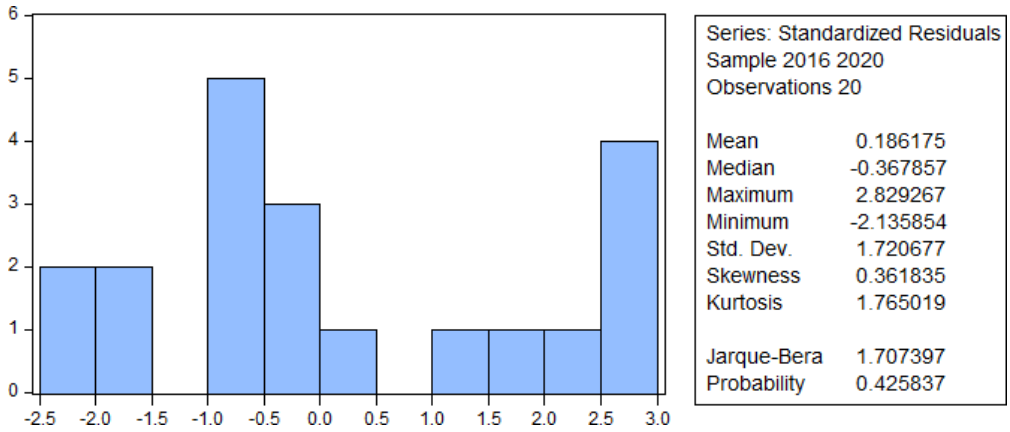

Figure 1. Normality Test Results

Based on the calculations above, it can be seen that the probability value is 0.425837 > 0.05, which means that Ha is rejected, indicating that the variable is normally distributed.

4.1.3. Multicollinearity Test

Table 3. Multicollinearity Test Results

	X1	X2
X1	1.000000	-0.091935
X2	-0.091935	1.000000

Based on the calculations above, it can be determined that the correlation between the variables Tax Incentives (X1) and Financial Distress (X2) is -0.091935. Based on the results of the multicollinearity test, the correlation between the independent variables does not exceed 0.10 (Ghozali, 2017). Therefore, it can be concluded that there is no multicollinearity issue among the independent variables used in this study.

A. Heteroscedasticity Test

Table 4. Heteroscedasticity Test Results

F-statistic	2.330058	Prob. F (1,47)	0.1336
Obs*R-squared	2.314468	Prob. Chi-Square (1)	0.1282

Based on the calculations above, it can be determined that all variables have probabilities > 0.05. This means that there is no Heteroscedasticity in this study.

4.1.4. Autocorrelation Test

Table 5. Autocorrelation Test Results

R-squared	0.048513	Mean dependent var	9.28E-05
Adjusted R-squared	-0.059611	S.D. dependent var	8.20E+11
S.E. of Regression	8.44E+11	Akaike info criterion	57.87341
Sum Squared Resid	3.14E+25	Schwarz criterion	58.10285
Log Likelihood	-1440.835	Hannan-Quinn criter.	57.96078
F-statistic	0.448681	Durbin-Watson stat	2.070639

Based on the calculations above, it can be determined that the Durbin-Watson statistic is 1, which falls between 2.070639 and 3. This means that there is no autocorrelation in this study.

4.1.5. Multiple Linear Regression Analysis

Table 6. Results of Multiple Linear Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.94E+10	1.61E+11	0.182578	0.8559
X1	-1.13E+08	12883841	-8.798459	0.0000
X2	-1.32E+08	1.09E+09	-0.121350	0.9039
R-squared	0.636562	**Mean Dependent Var**		-3.45E+11
Adjusted R-squared	0.612860	**S.D. Dependent Var**		1.36E+12
S.E. of Regression	8.46E+11	**Akaike Info Criterion**		57.84314
Sum Squared Resid	3.30E+25	**Schwarz Criterion**		57.99610
Log Likelihood	-1442.078	**Hannan-Quinn Criter**		57.90139
F-statistic	26.85640	**Durbin-Watson Stat**		1.612271
Prob (F-statistic)	0.000000			

Based on the calculations above, which show the results of multiple linear regression testing obtained from the following equation:

$$\mathbf{Y = 2.94E+10 - 1.13E+08 - 1.32E+08 + e}$$

a. The variable tax incentives (X1) have a negative coefficient of -1.13E+08, meaning that the tax incentives variable has a negative impact. For every increase in the tax incentives variable, the likelihood that a company will exhibit accounting conservatism decreases by -1.13E+08, assuming that the other variables remain unchanged.
b. The variable financial distress (X2) has a negative coefficient of -1.32E+08, meaning that the financial distress variable has a negative impact. For every increase in the financial distress variable, the likelihood that a company will exhibit accounting conservatism decreases by -1.32E+08, assuming that the other variables remain unchanged.

4.1.6. Coefficient of Determination Test

Table 7. Results of the Coefficient of Determination Test

R-squared	0.636562	**Mean Dependent Var**	-3.45E+11
Adjusted R-squared	0.612860	**S.D. Dependent Var**	1.36E+12
S.E. of Regression	8.46E+11	**Akaike Info Criterion**	57.84314
Sum Squared Resid	3.30E+25	**Schwarz Criterion**	57.99610

Log Likelihood	-1442.078	**Hannan-Quinn Criter**	57.90139
F-statistic	26.85640	**Durbin-Watson Stat**	1.612271
Prob (F-statistic)	0.000000		

Based on the calculations above, it can be determined that the Adjusted R-squared value is 0.612860. This value indicates that the variables X in this study, namely tax incentives and financial distress, collectively influence 61.28% of the variation in the Y variable, which is accounting conservatism. The remaining 38.72% is influenced by other variables outside of this research model, including leverage examined by Esa Anti Ursula (2018), profitability studied by Arsita & Kristanti (2019), and other variables.

4.1.7. Partial Test (T-Test)

Table 8. Results of the Partial Test (T-Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.94E+10	1.61E+11	0.182578	0.8559
X1	-1.13E+08	12883841	-8.798459	0.0000
X2	-1.32E+08	1.09E+09	-0.121350	0.9039

Based on the calculations above, it can be concluded that:

a. The Tax Incentive variable (X1) has a T-test value > T-table, which is -8.798459 > 2.009575237. Therefore, tax incentives (X1) have a significant influence on accounting conservatism (Y).
b. The Financial Distress variable (X2) has a T-test value < T-table, which is -0.121350 < 2.009575237. Hence, financial distress (X2) does not significantly affect accounting conservatism (Y).

4.1.8. Simultaneous Test (F-Test)

Table 9. Results of the Simultaneous Test (F-Test)

R-squared	0.636562	**Mean Dependent Var**	-3.45E+11
Adjusted R-squared	0.612860	**S.D. Dependent Var**	1.36E+12
S.E. of Regression	8.46E+11	**Akaike Info Criterion**	57.84314
Sum Squared Resid	3.30E+25	**Schwarz Criterion**	57.99610
Log Likelihood	-1442.078	**Hannan-Quinn Criter**	57.90139
F-statistic	26.85640	**Durbin-Watson Stat**	1.612271
Prob (F-statistic)	0.000000		

Based on the calculations above, the Prob (F-statistic) value is 0.000000 < 0.05, which means it can be concluded that Tax Incentives (X1) and Financial Distress (X2) together have an impact on accounting conservatism (Y).

4.2. Discussion

4.2.1. Influence of Tax Incentives (X1) on Accounting Conservatism (Y)

The empirical results of this study unequivocally reveal that the Tax Incentive variable (X1) exerts a profound and statistically significant influence on accounting conservatism (Y). This assertion is substantiated by the T-test result, wherein the calculated value of -8.798459 significantly falls below the critical threshold of 2.009575237. Consequently, it is evident that tax incentives play an indispensable role in shaping the observed levels of accounting conservatism within the context under investigation.

4.2.2. Impact of Financial Distress (X2) on Accounting Conservatism (Y)

Conversely, the research outcomes provide compelling evidence that the Financial Distress variable (X2), as defined within this study, lacks a statistically significant effect on accounting conservatism (Y). This conclusion is firmly grounded in the T-test result, which stands at -0.121350, well below the established significance threshold of 2.009575237. Therefore, within the confines of the present study, it is reasonable to assert that financial distress, as measured, may not emerge as a significant determinant of accounting conservatism.

4.2.3. Influence of Tax Incentives (X1) and Financial Distress (X2) on Accounting Conservatism (Y)

Remarkably, when considering the conjoint impact of Tax Incentives (X1) and Financial Distress (X2) on accounting conservatism (Y), the findings remain compelling. The Prob (F-statistic) value of 0.000000, which is notably less than the conventional significance level of 0.05, underscores the collective influence of these variables. This implies that when tax incentives and financial distress interact, they wield a substantial influence on accounting conservatism. Consequently, it becomes apparent that a comprehensive assessment of accounting conservatism determinants must account for the interplay between these factors, as their combined effect surpasses their individual contributions.

5. CONCLUSION

This research demonstrates that the tax incentive variable (X1) significantly influences accounting conservatism (Y), while the financial distress variable (X2) does not have a significant impact on accounting conservatism (Y). This suggests that companies tend to apply stronger accounting conservatism when there is a higher tax incentive. However, financial distress conditions do not significantly affect the level of accounting conservatism in companies.

The recommendations from this study are for company managers to consider tax incentives more carefully when making decisions related to accounting policies. Additionally, companies should continue to monitor their financial conditions, especially when facing financial distress situations, even though their impact on accounting conservatism is not significant. Furthermore, future research could explore other factors that may influence accounting conservatism in a broader context.

REFERENCES

Arsita, M. A., & Kristanti, F. T. (2019). Pengaruh Leverage, Profitabilitas, Kepemilikan Manajerial, Intensitas Modal dan Ukuran Perusahaan Terhadap Konservatisme Akuntansi (Studi Empiris pada Perusahaan Sub Sektor Food and Beverages yang Terdaftar di Bursa Efek Indonesia Periode 2014-2017). *EProceedings of Management*, *6*(2).

Bimo, A. A., & Sari, I. R. (2022). The Effect Of Audit Complexity, Financial Distress And Institutional Ownership On Audit Report Lag:(Empirical Study on Property and Real Estate Sub-Sector Companies Listed on the Indonesia Stock Exchange for the 2017-2021 Period). *Cashflow: Current Advanced Research On Sharia Finance And Economic Worldwide*, *2*(1), 75–89.

Esa Anti Ursula, P. A. U. P. Y. (2018). Pengaruh Kepemilikan Manajerial Ukuran Perusahaan, Leverage, Dan Growth Opportunities Terhadap Konservatisme Akuntansi. *Jurnal Akuntansi Vol. 6 No. 2 Desember 2018*, 194–206.

Ghozali, I. (2017). Hubungan Penerapan Corporate Governance dan Social Corporate terhadap Manajemen Pajak (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2012-2015). *Diponegoro Journal of Accounting*, *6*(3), 503–514.

Putra, I. G. B. N. P., Sari, A. A. P. A. M. P., & Larasdiputra, G. D. (2019). Pengaruh kepemilikan institusional dan kepemilikan manajerial pada konservatisme akuntansi. *WACANA EKONOMI (Jurnal Ekonomi, Bisnis Dan Akuntansi)*, *18*(1), 41–51.

Suandy, E. (2006). Perpajakan edisi 2. *Jakarta: Salemba Empat*.

Sulastri, S., & Anna, Y. D. (2018). Pengaruh financial distress dan leverage terhadap konservatisme akuntansi. *Akuisisi*, *14*(1), 59–69.

Sumantri, I. I. (2018). Pengaruh Insentif Pajak, Growth Opportunity, dan Leverage Terhadap Konservatisme Akuntansi. *Jurnal Ilmiah Akuntansi Universitas Pamulang*, *6*(1), 122–145.

Watts, R. L. (2003). Conservatism in accounting part II: Evidence and research opportunities. *Accounting Horizons*, *17*(4), 287–301.

Zelmiyanti, R. (2016). Pendekatan teori keagenan pada kinerja keuangan daerah dan belanja modal (Studi pada Provinsi di Indonesia). *JRAK: Jurnal Riset Akuntansi Dan Komputerisasi Akuntansi*, *7*(1), 11–21.

Copyrights